

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Status Review

# **Gila Bend Unified School District No. 24**

As of March 10, 2006

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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

June 29, 2006

Governing Board  
Gila Bend Unified School District No. 24  
P.O. Box V  
Gila Bend, AZ 85337-0420

Members of the Board:

In our September 2005 status review report we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR). Based on the District's representation to us that it had substantially corrected its deficiencies, we subsequently performed another status review of the District's internal controls as of March 10, 2006. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2004, audit reports and USFR Compliance Questionnaire, submitted in December 2005. The purpose of our most recent status review was to determine whether the District was in substantial compliance with the USFR as of the date of that review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our most recent status review, the District still has not complied with the USFR. Further, as of the date of this letter, we have not received the District's audit reports or USFR Compliance Questionnaire for the year ended June 30, 2005. These reports were due by March 31, 2006. Consequently, the District is also in noncompliance with the USFR for nonsubmission of that year's reports. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's continued noncompliance. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

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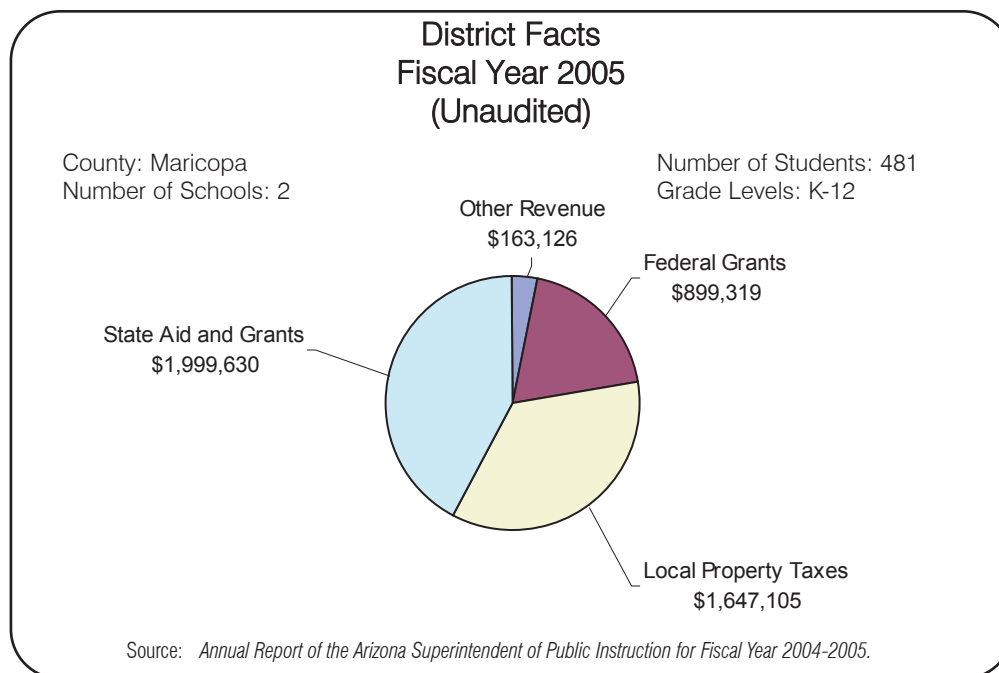


# INTRODUCTION

Gila Bend Unified School District No. 24 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$4.7 million it received in fiscal year 2005 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to safeguard its investment and help ensure accurate capital asset balances, effective stewardship requires the District to maintain accurate lists of these assets. However, the District did not accomplish this objective. Specifically, the District's capital assets list did not include all the required information for each item. In addition, cost documentation was not always retained for some assets, and if it was retained, information on the list did not always agree to the supporting cost documentation. Also, the District did not reconcile the results of its 2003 physical inventory to the capital assets and stewardship lists. Further, at least one asset determined to be obsolete at the time of the inventory was included on the capital assets list and its tag number was reused on another asset.

The District did not adequately account for its investment in capital assets as its list was incomplete and contained inaccurate information.

## Recommendations

The following procedures can help the District improve control over its capital assets and ensure that its capital assets and stewardship lists are accurate and complete:

- Prepare and maintain a capital assets list of all assets costing more than \$5,000 and with useful lives of 1 year or more. Include all required information for each item on the list.
- Retain documentation to support historical costs of all assets included on the capital assets list. If the District cannot locate documentation to support actual historical costs, it may use estimated historical costs obtained from bond issue documents, governing board meeting minutes, price lists, appraisals, or vendor catalogs.
- Update the lists annually for capital asset additions, disposals, and transfers.
- Reconcile the current year's capital assets and stewardship lists to the prior year's lists and the results of the District's most recent physical inventory. Make all necessary corrections to the lists.

The capital assets list should include the information described on USFR pages VI-E-2 and 3.

# The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules or the USFR guidelines. For example, the District did not document that it analyzed the known requirements for an item or a collection of items that, in the aggregate, may require purchases from one vendor using oral or written price quotations or competitive sealed bids or proposals. Additionally, the District did not have the Governing Board determine in writing that the use of competitive sealed bidding was either not practicable or not advantageous to the District before using the request for proposals process. Also, the District used a bidders list provided by a consultant assisting with the request for proposals process that was not prepared in accordance with School District Procurement Rules. Further, the District did not always obtain oral price quotations for purchases that required them and did not perform due diligence to ensure that an out-of-state purchasing cooperative's contract was bid in accordance with the Arizona School District Procurement Rules.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure that it received the best value for the public monies it spent.

## Recommendations

To strengthen controls over purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Determine and document whether to request oral or written price quotations or issue invitations for bids or requests for proposals by analyzing the known requirements for an item or a collection of items that in the aggregate may result in purchases above the thresholds.
- Have the Governing Board determine in writing that issuing invitations for bids is either not practicable or not advantageous to the District before issuing requests for proposals.
- Provide notice to prospective bidders by advertising the notice of invitation for bids or request for proposals as required whenever the District does not have at least five vendors on a properly prepared bidders list.

School District Procurement Rules provide the requirements for invitations for bids and requests for proposals.



- Obtain oral price quotations from at least three vendors for purchases costing between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Review documentation from each purchasing cooperative for a sample of the contracts that the District wishes to use. The District should confirm that the Arizona School District Procurement Rules were followed and document the due diligence performed.

## The District's controls over auxiliary operations and student activities monies should be strengthened

Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The District also holds student activities monies raised through students' efforts for safekeeping. The District is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the District did not establish proper oversight for auxiliary operations and student activities monies. For example, auxiliary operations cash receipts documentation was not always retained, and when documentation was retained, it did not include reconciliations of cash collections to sales. Additionally, the District did not ensure that all auxiliary operations checks were signed before they were issued and that auxiliary operations expenditures were classified in accordance with the USFR Chart of Accounts. Further, the student activities treasurer did not always sign checks drawn on the student activities bank account or verify that sufficient cash was available in student club accounts before authorizing disbursements.

The District's lack of controls over auxiliary operations cash receipts left monies susceptible to loss, theft, or misuse.

## Recommendations

To help strengthen controls over auxiliary operations and student activities monies, the District should:

- Prepare prenumbered cash receipt forms and cash collection reports to document auxiliary operations monies received. The cash collection reports should include a space to reconcile the cash collected to sales and document how differences are investigated and corrected.

The form on USFR page X-G-22 may be used to record daily cash collections and reconcile sales to cash collected.

- Ensure that all auxiliary operations checks are approved and signed by authorized signers before they are issued.
- Classify all auxiliary operations expenditures in the correct fund, program, function, object, and unit code in accordance with the USFR Chart of Accounts.
- Ensure that the student activities treasurer or assistant treasurer and one other authorized signer sign all student activities checks.
- Verify that sufficient cash is available in student club accounts before authorizing disbursements.

## The District should improve its controls over payroll processing

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately and for the District to maintain records to support payroll expenditures. However, the District did not have adequate controls over payroll processing. Specifically, the District did not have a delayed payroll system or require all hourly employees to prepare timecards. Additionally, governing board policies did not indicate the maximum amount of vacation a district employee may accrue or the policy for compensation of unused vacation when employees terminate employment.

The District's lack of a delayed payroll system put it at risk of overpaying employees.

## Recommendations

To help strengthen controls over payroll processing, the District should establish a delayed payroll system that allows adequate time between the end of the pay period and the pay date to ensure that employees are paid only for wages earned. Additionally, the District should require all hourly employees to submit signed timecards that are approved by appropriate supervisors to support hours worked. Further, the District should have written policies that include maximum vacation accruals and the rate and any other requirements for paying terminating employees for unused leave.

## The District should improve controls over food service cash receipts

The District receives cash from various sources, including food service sales, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that cash is promptly and accurately recorded and deposited. However, the District did not establish and follow proper procedures for collecting and depositing food service monies.

Weak cash controls left food service monies at risk of being lost or stolen.

Employees did not prepare daily cash receipt summaries or cash collection reports to document and reconcile daily food service sales and cash collections. In addition, the District did not ensure that cash receipts were deposited at least weekly, and inappropriately allowed adults to charge meals.

### Recommendations

To help strengthen controls over cash, the District should prepare daily reports of sales and cash collected, reconcile these two amounts, and investigate all cash overages and shortages. Further, the District should ensure that cash receipts are deposited intact daily, if significant, or at least weekly. Finally, the District should not allow adults to charge food purchases.

USFR §X-F provides general policies, procedures, and sample forms for food service operations.